DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Item 38 ID# 4226

ENERGY DIVISION RESOLUTION E-3910

February 10, 2005

R E S O L U T I O N

Resolution E-3910. San Diego Gas & Electric Company (SDG&E) submits notification of actions it has taken to implement California Public Utilities Commission (CPUC or Commission) Decision 04-07-028, which are consistent with its approved short-term procurement plan. SDG&E developed a new Operating Procedure in cooperation with the California Independent System Operator to help congestion mitigation by using effectiveness factors in procurement and scheduling activities.

By SDG&E Advice Letter 1641-E filed on December 3, 2004, which is approved.

SUMMARY

This Resolution approves the actions SDG&E has taken and that it intends to continue implementing pursuant to Decision (D.) 04-07-028, which are consistent with its approved short-term procurement plan.

SDG&E has taken the following actions pursuant to its implementing the directives of D.04-07-028: 1) curtailed imports from Palo Verde and Mexico; 2) sold the output from existing Yuma Cogeneration contracts into Arizona so that SDG&E is no longer importing this energy to its bundled customers; 3) worked with the California Independent System Operator (ISO or CAISO) to be included in Operating Procedure M-438; and 4) developed a new Operating Procedure in cooperation with the ISO as a complement to M-438 to help congestion mitigation by using effectiveness factors in procurement and scheduling activities.

SDG&E Advice Letter 1641-E was timely protested by Southern California Edison Company (SCE). The ISO timely filed a letter in support of the proposed Operating Procedure in AL 1641-E.

This resolution approves the advice letter.

BACKGROUND

To reduce congestion in the San Diego area and SP-15 zone, SDG&E has begun construction of several transmission upgrade projects.

As a result of increased generation located in Arizona and Mexico, and scheduled deliveries across SDG&E's 500kV transmission system to deliver this energy to Load Serving Entities (LSEs) located north of San Diego, the ISO experiences congestion in the San Diego area as well as other areas within the SP-15 zone.

In order to alleviate this intra-zonal congestion, the ISO uses its congestion mitigation procedures that rely on "dec'ing" generation located in Arizona and Mexico and "inc'ing" generation under Reliability Must Run (RMR) contracts located in the SDG&E service territory. This practice results in congestion-related RMR costs of several tens of millions of dollars, which are allocated to SDG&E transmission customers.

To reduce this congestion, SDG&E has begun construction of several key transmission upgrade projects on an accelerated basis. This includes the Miguel Substation upgrade completed in October 2004, and the 230kV Miguel-Mission #2 line to be completed in 2006. On September 30, 2004, SDG&E filed a petition to modify (PTM) D.04-07-026. The PTM was approved by the Commission on December 16, 2004, which allows for a temporary upgrade of a 69kV line to 230kV starting in the Summer 2005, until the new 230kV line is energized in 2006.

The CPUC issued D.04-07-028 in July 2004 to address electric system reliability through 2005.

To address electric system reliability through 2005, the CPUC issued D.04-07-028 on July 8, 2004 to clarify and modify past Commission orders regarding the least cost dispatch standards that utilities follow when making resource scheduling and short-term procurement decisions.

The decision requires SDG&E to consider reliability factors and incorporate all known and reasonably anticipated ISO-related costs when procuring and scheduling resources. These costs include congestion, re-dispatch, and must-offer costs.

The decision recognizes that the long-term solutions to these problems will be found in market design changes and the resolution and implementation of resource adequacy issues being addressed in R.04-04-003. The guidelines outlined in D.04-07-028, however, shall serve as a "bridge" until the longer-term issues are resolved. Actions taken in furtherance of D.04-07-028 "shall be deemed consistent with the utilities' already approved short-term procurement plans."

NOTICE

Notice of SDG&E AL 1641-E was made by publication in the Commission's Daily Calendar. SDG&E states that a copy of the Advice Letter was served on the utilities and interested parties by providing them a copy electronically or mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

SDG&E Advice Letter 1641-E was timely protested by Southern California Edison Company (SCE) on December 23, 2004. SDG&E responded to SCE's protest on December 30, 2004.

Additionally, the ISO filed a letter on December 23, 2004, in support of SDG&E's proposed Operating Procedure in AL 1641-E.

The following is a more detailed summary of the major issues raised in the protest.

SCE states that AL 1641-E should be rejected for the following general reasons:

- The advice letter fails to comply with the Commission's directives to schedule and procure sufficient and appropriate resources system-wide and locally.
- It does not meet customers' needs for local area reliability.
- It does not permit the California Independent System Operator (ISO) to maintain reliable grid operations.
- It does not include an effective mechanism for mitigating intra-zonal congestion.

- It may actually increase the ISO's real-time administrative burdens and operating costs.
- It may shift costs from all transmission customers to the bundled customers of load serving entities.

SCE states the advice letter should be rejected for the following specific reasons:

- **The proposed procedure is based on outdated and overly aggregated information.**

SCE claims that the transmission adders described in SDG&E's proposed procedure rely in large part on ISO settlement data up to 90 days old. SCE believes that SDG&E does not explain why it uses such data for current procurement and dispatch decisions when the ISO has access to more up-to-date information.

SCE also claims that SDG&E uses data that is aggregated over an entire month or longer. SCE states that since energy transactions generally span an hour or only a few hours of a month, using monthly aggregated data for current decision making provides no insight on whether the intra-zonal congestion is primarily an on-peak, off-peak, or hourly problem.

SDG&E responded that it relies on the timeliest ISO data at its disposal when calculating its "cost adders" as part of its procurement procedure. Currently the ISO data is obtained from the CAISO Department of Market Analysis monthly report posted on the CAISO website. That report is typically published approximately six weeks after the end of each month, so that some of the data is up to 10 weeks old.

SDG&E has informed Staff that as part of the ISO's commitment to assist utilities in helping the ISO manage intra-zonal congestion, the ISO is developing a process for gathering and disseminating data that is superior to the current data used by SDG&E. The goal is to have data that is timelier and more path specific, in line with enhanced logging of dispatches as required by Amendment 60 cost allocation.

- **The advice letter cannot be considered an effective congestion management strategy.**

SCE states that D.04-07-028 requires SDG&E to dispatch its resources in a manner that facilitates system-wide and local area reliability. SCE suggests that the advice letter should provide for SDG&E's dispatching the generating units under its control in a manner consistent with M-438, specifically Williams Product D.

SCE states that, *"The proposed procedure will produce no benefits, and may actually cause additional congestion."* SCE believes that even though SDG&E may avoid importing power from a constrained location, other market participants would respond by scheduling an import at that location. SCE argues that if SDG&E is buying power in SP-15 through a Scheduling Coordinator transfer to replace an import it would have otherwise scheduled, it is possible that the entity selling the power to SDG&E in SP-15 is itself importing the power over the same path SDG&E avoided. SCE claims that SDG&E has no way of determining the source of such a transaction.

In response, SDG&E cites the ISO's support letter mentioning that SDG&E's proposed procedure was developed with input from the ISO. The ISO stated that it *"concurs that the theory underlying the Procurement Procedure is sound and that it should promote more feasible scheduling and facilitate cost accounting for the associated reliability service premium recoverable through the Reliability Services provisions in SDG&E's Transmission Owner Tariff."*

SDG&E states, *"The ISO's letter of support helps to demonstrate that SDG&E has fully responded to the Commission's direction in D.04-07-028 for the utilities to take reasonable, incremental steps to ensure that reliability is considered in procurement and scheduling of resources."*

SDG&E further clarifies that its proposed procedure applies to both scheduling and procurement, which encompasses a broader scope than relying solely on M-438 to fulfill a utility's obligations for procurement. SDG&E's proposed procedure is designed to operate during all hours of all months throughout the year.

SDG&E also states that its procedure will result in additional commitment and output of in-basin units based upon the price signals described in the procedure.

SDG&E acknowledged in its advice letter and repeated in its response to SCE's protest that other non-CPUC jurisdictional entities may re-congest the same lines, but those factors are outside SDG&E's and the Commission's control.

- **SDG&E's proposed procedure lacks a mechanism for recovery of incremental costs.**

SCE claims that SDG&E's proposed procedure is deficient because it lacks a mechanism for recovery of incremental costs from other load serving entities as required by D.04-07-028. SCE states, "*Advice Letter 1641-E contains no information as to how SDG&E proposes to establish and seek recovery of any cost premiums it incurs in implementing the proposed procedure.*"

In response SDG&E states that the Commission has already indicated that utilities may recover costs incurred for reliability purposes consistent with D.04-07-028. SDG&E states that, "*SDG&E will indeed seek such cost recovery through the appropriate CPUC and FERC proceedings and filings … That showing is not required here.*"

Staff agrees with SDG&E that the issue of cost recovery has already been addressed by D.04-07-028, and does not need to be expanded upon in SDG&E's AL filing. As stipulated in the decision, actions taken in furtherance of the directives of the orders in the decision are deemed consistent with the utilities' already approved short-term procurement plans, and thereby subsumed within the protection provided by AB 57. Therefore, the related costs should be fully recoverable by SDG&E as part of its already approved short-term procurement plan.

DISCUSSION

Energy Division has reviewed SDG&E AL 1641-E. Discussion of the relevant facts that lead to the approval of this advice letter is below.

SDG&E has undertaken the following four actions relative to implementing D.04-07-028:

1. **SDG&E has curtailed imports from Palo Verde and Mexico.**

   In compliance with Ordering Paragraph 1 of the decision regarding resource scheduling and procurement decisions, SDG&E has curtailed imports from Palo Verde and Mexico. According to SDG&E, incremental discretionary schedules that could contribute to intra-zonal congestion have been eliminated.

2. **SDG&E has sold the output of the existing Yuma Cogeneration contract into Arizona.**

   In compliance with Ordering Paragraph 1 of the decision, SDG&E is therefore no longer importing this energy to its bundled load customers.

   According to SDG&E, over the time period of July through November 2004, this practice has on average resulted in congestion cost savings to SDG&E customers. While this procedure was previously advantageous, based on data SDG&E has now received from the ISO, SDG&E has determined that the cost of this mitigation measure is no longer beneficial. Therefore, SDG&E ceased this measure at the end of November 2004 when the last sale contract expired.

3. **SDG&E worked with the ISO to identify SDG&E's energy positions and contracts.**

   In furtherance of Ordering Paragraph 1 of the decision, SDG&E has worked with the ISO to be included in Operating Procedure M-438. Currently, there are no generation requirements for generators located in the SDG&E service area beyond the RMR requirements. As presently written, M-438 requires no action on SDG&E's part.

4. **In cooperation with the ISO, SDG&E developed a new Operating Procedure for congestion mitigation using effectiveness factors in scheduling and procurement decisions.**

   This new procedure, developed with input from the ISO, is designed to be complementary to the ISO's Operating Procedure M-438. SDG&E is adopting this plan immediately because it estimates that additional costs resulting from this procedure would be offset by the congestion cost savings.

SDG&E's proposed Operating Procedure allows SDG&E to estimate the ISO's intra-zonal congestion mitigation costs.

SDG&E's proposed Operating Procedure is based on the most recently available data contained in reports prepared by the ISO's Department of Market Analysis. This data allows SDG&E to make approximations or estimates of the ISO's intra-zonal congestion mitigation costs. These estimates are predicated on certain assumptions that are used to calculate the per MWh cost for each constrained intra-zonal path, as well as the impact of transactions on each constrained path.

This procedure also utilizes the effectiveness factors provided by the ISO. These factors inform SDG&E how effective any procurement and scheduling activity might be towards mitigating or exacerbating congestion on any potentially constrained path. These factors apply to imports from the tie points and allow SDG&E to understand how potential procurement and scheduling transactions may affect flows on specific paths.

The ISO supports SDG&E's proposed Operating Procedure.

In its December 23, 2004 letter, the ISO expressed support for SDG&E's proposed Operating Procedure in AL 1641-E. SDG&E developed the Operating Procedure with input from the ISO.

The ISO stated, *"The CAISO concurs that the theory underlying the Procurement Procedure is sound and that it should promote more feasible scheduling and facilitate cost accounting for the associated reliability services premium recoverable through the Reliability Services provisions in SDG&E's Transmission Owner Tariff. SDG&E acknowledges that the CAISO may request that SDG&E augment, through a supplemental Request for Offers or other mechanism, additional generation capacity from a list of generating units identified by the CAISO, as may become available."*

More current data would enhance the effectiveness of SDG&E's proposed Operating Procedure.

The Operating Procedure proposes to utilize estimated path-specific congestion cost signals to determine whether to replace a schedule that may contribute to a congested path with an alternate resource that mitigates the congestion.

In the AL, SDG&E notes that the Operating Procedure may be impacted by the "lag time" in the congestion data available from the ISO to calculate the estimated congestion costs. SDG&E suggests that certain forecasted data be made available by the ISO, e.g., forecast of hours that each path is expected to be constrained, forecast of the amount and location of required mitigation, and forecast of costs to mitigate the congestion.

In its support letter, the ISO acknowledges that more current data would enhance the effectiveness of SDG&E's Operating Procedure. The ISO states, "*The CAISO is working diligently, within the parameters of its tariff, to provide timely historical data on the location and amount of congestion on an intra-zonal or path-specific basis. However, the CAISO does not presently anticipate providing the 'forecast' information suggested by SDG&E.*"

Staff agrees with SDG&E that the ISO should be encouraged to apply all necessary resources to produce more detailed and timely data to be used by the utilities in implementing D.04-07-028 and assisting the ISO in its congestion management efforts.

SDG&E's actions, including those contemplated by the proposed Operating Procedure, are consistent with the Commission's directives in D.04-07-028.

Staff finds that SDG&E's actions including its proposed procedure as described in AL 1641-E offer the "incremental improvement" that the Commission seeks in D.04-07-028. We recognize that long-term solutions will ultimately be achieved through adoption of market design changes and implementation of a long-term resource adequacy program.

As stipulated in the decision, actions taken in furtherance of the directives of the orders in the decision are deemed consistent with the utilities' already approved short-term procurement plans, and thereby subsumed within the protection provided by AB 57. Therefore, the related costs should be fully recoverable by SDG&E as part of its already approved short-term procurement plan.

Williams Product D units should be re-allocated to SCE to facilitate compliance with D.04-07-028.

In discussions prior to the Commission's adoption of D.04-07-028, SCE noted that approximately 1,100 MW of dispatchable capacity under contract to the

California Department of Water Resources (CDWR), specifically the Williams Product D units that are physically located in SCE's service territory, has been allocated by the CPUC to SDG&E. SCE indicated that SDG&E may have an impact on local reliability conditions in SCE's service territory, by virtue of its decisions to dispatch or not dispatch the Williams Product D units.

Staff is aware that on occasions SDG&E does not schedule the Williams CDWR contracts because it is not needed to meet SDG&E's load. However, because the ISO needs these units to maintain reliability in SP-15, the ISO turns these units on and pays them. Therefore, it appears to Staff that ratepayers are paying twice for these units; once via expensive CDWR contracts and again when the ISO turns these units on.

On February 2, 2005, the CDWR on behalf of itself and Williams Energy Marketing & Trading (Williams) submitted a Memorandum to Energy Division to clarify that ratepayers do not pay twice for energy dispatched under the Williams Product D contract. CDWR explained that, "*Under the terms of the Williams Product D contract, DWR holds title to all energy and capacity from the Designated Units under the contract. The contract provides that DWR is entitled to all revenues from the CAISO's dispatch of the Designated Units. To the extent CAISO dispatches these units, Williams is obligated to reimburse DWR any amount that Williams receives from the CAISO. DWR in turn deposits these funds in the Electric Power Fund and they serve to reduce DWR's revenue requirements effectively returning these amounts to ratepayers.*"

Staff recommends that the Commission expeditiously consider in a proceeding, such as R.04-04-003, the re-allocation of the CDWR contracts for Williams Product D units from SDG&E to SCE. Staff supports changing the allocation of the Williams Product D contract, and other contracts that raise similar issues, which would increase the ability of the utilities to assist the ISO to maintain local reliability, protect ratepayer interests, and facilitate the utilities' compliance with D.04-07-028.

COMMENTS

Public Utilities Code section 311(g) (1) generally requires resolutions to be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g) (3) provides that this 30-day period may be reduced or waived pursuant to Commission adopted rule.

The 30-day comment period for this Resolution has been reduced in accordance with the provisions of Rule 77.7(f) (9). Rule 77.7(f) (9) provides that the Commission may waive or reduce the comment period for a decision when the Commission determines that public necessity requires reduction or waiver of the 30-day period for public review and comment. For purposes of Rule 77.7(f) (9), “public necessity” refers to circumstances in which the public interest in the Commission’s adopting a decision before expiration of the 30-day review and comment period clearly outweighs the public interest in having the full 30-day period for review and comment, and includes circumstances where failure to adopt a decision before expiration of the 30-day review and comment period would cause significant harm to public health or welfare. The public necessity in this case is that SDG&E needs to adopt the proposed Operating Procedure to improve reliability and as a congestion cost savings measure as quickly as possible.

The Commission must address SDG&E AL 1641-E as quickly as possible.

Thus, pursuant to Rule 77.7(f) (9), we provide for a shortened comment period.

SCE filed timely comments on draft Resolution E-3910 on January 20, 2005. Reply comments were timely filed by SDG&E on January 21, 2005.

The following is a more detailed summary of the major issues raised in the comments filed by SCE and replied to by SDG&E.

SCE repeats the same issues it raised in its initial protest of the advice letter.

In its comment letter, SCE repeats that its main concerns with SDG&E’s AL 1641-E are the following:

- SDG&E’s proposed procedure does not encourage additional generation units located in SP-15 to be dispatched.
- The proposed actions by SDG&E will have little or no effect on intra-zonal congestion costs, and could lead to higher ratepayer costs.
- The ISO controls the transmission grid and knows the best ways to mitigate intra-zonal congestion.

- The advice letter relies on outdated and over aggregated information.
- The draft Resolution's recommendation that the Commission reallocate the Williams Product D units to SCE is not relevant to this proceeding and should be stricken.

SDG&E replied that SCE repeats criticisms it made in protesting SDG&E's advice letter.

SDG&E states that, "*SDG&E's procedure will result in additional commitment and output of in-basin units based upon the price signals described in the proposed procedure.*"

SDG&E reaffirms that, *"SDG&E's procedure ia a valid, incremental step for implementing the Commission's goals in D.04-07-028."*

SDG&E again explains that, *"its procedure applies to both scheduling and procurement, … applies throughout the year, and is not just limited to the third quarter."*

SDG&E states, *"SDG&E agrees with SCE that the ISO knows the best ways to mitigate intra-zonal congestion…. SDG&E has therefore made its best effort to develop a procedure that it believes will advance the Commission's and the ISO's goals."*

As SDG&E stated in its initial reply to protests on December 30, 2004, the ISO itself recognizes that SDG&E's procedure may be improved in the future if it made more current data available, and is actively working with the ISO staff to identify additional data that will be useful in improving the price signals in SDG&E's procedure.

In its reply to SCE's comments, SDG&E states, "*The draft Resolution merely states that there could be value in reallocating Williams Product D to SCE because those units are physically located in SCE's territory. The Commission staff further reocommends that the Commission take up this issue in R.04-04-003. Without taking a position on the merits at this time, SDG&E agrees that there is value in further considering a potential reallocation of Williams Product D.*"

While Staff agrees with SCE that this proceeding is not the proper venue in which reallocating the Williams Product D units to SCE should be decided, and is not relevant to a determination of the approval of AL 1641-E, we agree with SDG&E that there is value in further considering this issue in R.04-04-003.

SCE's comments submitted on this draft Resolution did not address any factual, legal, or technical errors in the proposed draft Resolution. SCE's comments, which merely reargue positions taken in the advice letter or protest, are therefore accorded no weight.

FINDINGS

1. SDG&E filed Advice Letter 1641-E on December 3, 2004 to notify the CPUC of actions it has taken pursuant to D.04-07-028.
2. SDG&E has curtailed imports from Palo Verde and Mexico.
3. SDG&E has sold the output of the existing Yuma Cogeneration contract into Arizona.
4. SDG&E worked with the ISO to be included in Operating Procedure M-438.
5. In cooperation with the ISO, SDG&E developed a new Operating Procedure, as a complement to M-438, for congestion mitigation using effectiveness factors in scheduling and procurement decisions.
6. SDG&E's proposed Operating Procedure allows SDG&E to estimate the ISO's intra-zonal congestion mitigation costs.
7. SDG&E's actions, including those contemplated by the proposed Operating Procedure, are consistent with the Commission's directives in D.04-07-028 and SDG&E's approved short-term procurement plan.
8. The related costs should be fully recoverable by SDG&E as part of its approved short-term procurement plan.
9. The ISO filed a timely letter in support of SDG&E's proposed Operating Procedure as described in AL 1641-E.
10. SDG&E Advice Letter 1641-E was timely protested by SCE. SCE's protest is resolved as described herein.
11. In this case, public necessity warrants providing for a comment period of less than 30 days.

THEREFORE IT IS ORDERED THAT:

1. The actions SDG&E has taken and that it intends to continue implementing pursuant to D.04-07-028, as described in Advice Letter 1641-E, are consistent with its short-term procurement plan and thereby approved.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on February 10, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director